

Message Text

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SUBJECT: ECONOMIC AND DEVELOPMENT REVIEW COMMITTEE (EDRC)
REVIEW OF CANADA, JULY 3, 1978

REF: PARIS 20541

1. IN GENERAL, WASHINGTON AGENCIES AGREE WITH SECRETARIAT
ANALYSIS OF, AND POLICY RECOMMENDATIONS FOR, CANADIAN
ECONOMY AND SUPPORT MISSION'S SUGGESTED LINE OF QUESTIONING.
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SPECIFIC COMMENTS FOLLOW.

2. IN CONSIDERING REDUCTION OF RATE OF INCREASE OF
PRICES AND WAGES AND REASONS THEREFORE, IT MAY BE USEFUL TO
KEEP IN MIND THAT MOST OTHER SUMMIT COUNTRIES HAVE EXHIBITED
A SIMILAR PATTERN OF DECELERATION WITHOUT IMPOSING PRICE
AND WAGE CONTROLS. US REP MAY WISH TO EXPLORE EXTENT TO

WHICH WAGE AND PRICE CONTROLS CONTRIBUTED TO THE DECELERATION IN CANADA. FOR EXAMPLE, DURING 1976 THERE WAS MARKED DECREASE IN RATE OF INCREASE OF CANADIAN CPI, BUT THIS LARGELY REFLECTED CHANGES IN FOOD PRICES, WHICH WERE NOT SUBJECT TO PRICE CONTROLS. SECRETARIAT DISCUSSION OF EFFICACY OF PRICES AND INCOMES POLICY IS CONFUSING AND RECOMMENDATION IS UNCLEAR. IS SECRETARIAT IN FACT SUGGESTING A RETURN TO SOME FORM OF DIRECT CONTROLS ON PRICES AND

WAGES? IF NOT, THEN THE ALTERNATIVE NEEDS TO BE MORE CLEARLY DEFINED.

3. ONE NOTABLY NEGATIVE FACTOR IN CANADIAN ECONOMIC PERFORMANCE (AND NOT UNIQUE TO CANADA) IS WEAK PRIVATE SECTOR INVESTMENT. BUSINESS FIXED CAPITAL FORMATION EXPENDITURES HAVE DECLINED TO LATE 75 LEVEL. US REP MAY WISH TO EXPLORE CONTRIBUTING FACTORS, SUCH AS LOW RATE OF CAPACITY UTILIZATION, INVENTORY LEVELS, AND RELATIONSHIP BETWEEN NOMINAL INTEREST RATES AND RATE OF INFLATION.

4. SINCE CANADIAN ECONOMY IS TIED SO CLOSELY TO US, WE ARE SOMEWHAT HESITANT TO ASK QUESTIONS ABOUT FUTURE CANADIAN GROWTH RATES. WE HAVE SOME DOUBT THAT CANADIAN GROWTH RATE WILL PICK UP LATER IN 1978, WHEN US ECONOMY IS EXPECTED TO BE SLOWING DOWN. IN SUCH CASE, WHERE WOULD BOOST TO CANADIAN GROWTH COME FROM, SINCE SECRETARIAT NOTES THAT LIMITED OFFICIAL USE

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"THERE WOULD PROBABLY BE LITTLE OR NO ROOM TO EXPAND DOMESTIC DEMAND IN CANADA"?

5. WE WOULD APPRECIATE AMPLIFICATION OF NATURE OF SELECTIVE EMPLOYMENT MEASURES WHICH SECRETARIAT RECOMMENDS IN CANADIAN SITUATION.

6. US REP MAY WISH TO EMPHASIZE POINT MADE PARA (4) REFTEL TO EFFECT THAT RESTRAINING LABOR COSTS RELATIVE TO PRICE LEVELS PLAYED AN IMPORTANT ROLE IN CONTAINING THE RISE IN UNEMPLOYMENT. IF EXAMINATION SUPPORTS THESIS THAT WAGE MODERATION LEADS TO HIGHER EMPLOYMENT, WE SHOULD ENSURE THAT IT RECEIVES APPROPRIATE ATTENTION IN PUBLISHED REPORT. WE SUGGEST LANGUAGE ALONG FOLLOWING LINES BE INCLUDED IN MAIN CONCLUSIONS: QTE. CLOSE CONSIDERATION SHOULD BE GIVEN TO RELATION BETWEEN MOVEMENT OF REAL WAGE COSTS AND EMPLOYMENT IN ORDER TO PROMOTE DEVELOPMENTS WHICH SIMULTANEOUSLY REDUCE UNEMPLOYMENT AND INFLATION. DISCUSSION OF PRICES AND INCOMES BEHAVIOR SHOULD FOCUS ON THESE RELATIONSHIPS AND THEIR SIGNIFICANCE FOR BARGAINING UNQTE.

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